

WARRANT COMMITTEE FY07 MEETING MINUTES
FEBRUARY 7, 2007, 7:30 P.M.
CHENERY MIDDLE SCHOOL COMMUNITY ROOM

Meeting was called to order at 7:35 by Chair Jones.

Present: Town Administrator Younger, Town Accountant Hagg, BOS Member Solomon, School Committee Chair Gibson, Town Treasurer Carmen; David Driscoll from Buck Consulting; Retirement Board members Walter Wellman, Tom Gibson; Doug Mosely from New England Pension Consultants; and Retirement Board Administrator Marion Cote

Absent: Members Christensen, Oates, Hofmann, Tillotson, and Callanan

Belmont Retirement Board Actuarial Study

The meeting began with introductions of the Retirement Board (RB) members, and the distribution of several handouts by the RB. A discussion was led by David L. Driscoll, F.S.A., E.A., Principal and Consulting Actuary from Buck Consulting, LLC.

David Driscoll: The Belmont Retirement Board (RB) was created by statute. Barbara Hagg is an ex-officio member of board, one member is appointed, and two members are elected. The RB's role, as dictated in the statute, is to administer the funds for those entitled to a pension. The RB is an independent unit with its own assets and liabilities. At this time there are funding level concerns.

Chair Jones posed the question: Why is it that liabilities are increasing but the assets are flat?

Driscoll replied: For Chapter 32 retirement systems, evaluations are done every other year. Belmont was at its highest funding point in 2000. Since then, asset values have decreased. The Town of Belmont could not afford its then-current funding schedule in FY02 and asked the Retirement Board to consider one that was more affordable. The Warrant Committee met with the Retirement Board and the following changes were made: interest rate assumptions were raised from 8 to 8.25%, the funding schedule increased by 11 years, a smoothing method was adopted (gains & losses are now smoothed out over 5 years), and contributions were then adjusted so the increases would be smaller. As part of the 2004 evaluation, Buck Consulting came up with a funding schedule and were told again that this was uncomfortable. Buck Consulting went back and looked at it again and devised another funding schedule to reduce the rate of increase in the first year.

Regarding the declining funding status, Driscoll continued, Belmont's situation is far from unique and is better off to some extent. Belmont is "not bad" compared to other communities. There are not a lot of systems doing better, except Cambridge.

Chair Jones asked, but what is driving the liabilities up 10 percent or more? Driscoll replied that it is driven up over the last five years because we have not met the 8.25% interest target that is part of our funding assumptions. We are averaging over the last five years an annualized interest of 5.85%. On the other hand, the annualized rate of return over the 20-year period ending 2005 was 10.21%

But isn't the real issue, Member Widmer asked, that we are not meeting investment targets? Partly, Driscoll replied, but the larger amount of pension debts is also a factor. And, Widmer continued, can you determine what the elements and relative importance of each factor that cause this decline - is it calculable? It would be helpful to get that number. I want to understand for future purposes the decline from 70% to 52% funding.

Member Allison asked about the 8.25% and commented that the rate would appear unattainable with the current percentage of bonds in the portfolio - or at least require a remarkable performance on the equity side. We have several sources of change, she observed - what's their relative significance? Also, isn't the answer to Mike [Widmer]'s and Ralph [Jones]'s question an arithmetic exercise?

Driscoll replied that he would need to recalculate appropriations, that he can't just guess, and that this request needs to come from the RB. Town Accountant Hagg said that the RB will not be paying those costs; they would have to be paid by the Town.

The first question to ask, said Widmer, is what accounts for this decline. Also, do we know about other communities - have they continued to decline? Driscoll said Member Widmer could find that out from PERAC's website.

Chair Jones noted that from '04 to '06, expenses went way up. What type of expenses are there? RB member Gibson said that operating expenses were about the same, salaries and travel also about the same, computer maintenance contracts had an increase in fees. RB member Mosely offered that from '04 - '06, we diversified to funds that have higher management fees (Real Estate, Private Equity, etc) - all these are purchased through PRIM. Member White noted that the fixed-income allocation is among the highest, which seemed like a drag on overall income, and asked for a comment on why? Mosely replied that the bonds match up with liabilities, and that the bond market yield has dropped to a low-level-return environment. We don't want to destroy the value of the pension fund - 8.25% return over the long term has been met comfortably, the return has not been abnormal over time. Belmont has been performing close to PRIM with variations. Asset allocation is decided by the Board of each Retirement System, Mosely added.

Member Allison said she feels that this is a very tough target and that the numbers don't work.

Chair Jones concluded that this has been helpful, and that the WC is interested in making best decision on how to fund the plan.

Handouts Related to This Topic:

- " Report on the January 1, 2004 Actuarial Valuation of the Belmont Contributory Retirement System
- " Report on the January 1, 2006 Actuarial Valuation of the Belmont Contributory Retirement System
- " The Commonwealth's Pension System: A Good Investment for Massachusetts
- " Working Effectively With Your Retirement Board
- " Comparative Statistics on Municipal Retirement Systems in Suburban Boston
- " Town of Belmont Comparative Operating Statements, Six Months Ending 12/31/06, 12/31/05, 12/31/04
- " Investment "Comparisons"

Minutes Approved for 1-17-07 and 1-24-07

After a correction was made to the minutes of 1-17-07, both 1-17-07 and 1-24-07 were approved unanimously.

Other Agenda Items

Chair Jones put forth three agenda items (filling out the "Other" item of the initial agenda):

- " Budget numbers

- " VFW Hall
- " Self Insurance

Self-Insurance

Member Curtis passed out copies of an article that will appear in the Guest Perspective section of the Belmont Citizen-Herald on February 9, 2007, suggesting that the Town self-fund its health insurance program as a cost-saving measure.

Member Allison noted that small amounts of money are being proposed to be spent for various additional programs - who is taking responsibility for these calculations, and how could this be expected to be done cheaper under self-insurance? Member Curtis replied that he needs specifics regarding the numbers she is asking about. Harvard Pilgrim, he said, is serving as final board of appeals. Member Allison requested the following information: list of all additional costs, who is responsible for final calculations, and agreement on a three year build up of reserves (Town & School). Chair Jones motioned for Member Curtis to deal with this and other questions before the WC could vote on it, and so forward it to the BOS.

After a brief discussion of the Self Insurance issues, Member Heigham suggested that Member Curtis restate the motion that the WC is putting forward. Member Curtis declared the following:

Motion: The WC recommends that the BOS pursue self-funding of the Town's health insurance programs subject to the following conditions:

1. that the Town establish and maintain an adequate trust fund
2. that an advisory committee is established to meet regularly and assess the entire state of affairs concerning health insurance and report to the BOS and the WC
3. that the Insurance Advisory Committee (IAC) meet at least quarterly to review and evaluate health insurance
4. that self-funding, reinsurance, administration, and all such costs be made known to BOS before a final decision is made
5. that the BOS and Town contract with Harvard Pilgrim or another carrier such that they are final arbiters concerning coverage

BOS member Solomon offered that the BOS would like input from the WC and SC. He said he's in favor of establishing a stabilization fund. Member Curtis said the most important variable is determining what's an adequate trust fund. This needs to be defined, he said, but not tonight. There was a suggestion that adequate reserves should include IBNR (Incurred but not Reported) along with 25% to fill gap to attachment point. Chair Jones agreed and said that it will take 2-3 years to get the fund up. Member Paolillo asked if the status of self-insurance will be reviewed on annual basis? Curtis replied yes.

A unanimous motion was passed regarding the motion that member Curtis put forth (i.e., to include the 5 provisos in any self-funding proposal to the BOS).

Handouts Related to This Topic:

- " Belmont's Health Insurance: Time for Reform

VFW Hall

Town Administrator Younger provided the summary:

The Town leases to the VFW the land on which it sits. The land is Belmont's, and the VFW wants to no longer maintain the building. The VFW wants to stay in the building under town ownership.

I am looking at the legal issues if the VFW reverts ownership back to the Town. There are issues about repair and maintenance of building, HVAC issues, and condition of roof.

Member Widmer asked - why not sell the building? Why take on another cost? Member Doblin said this issue raises many questions - If the building were demolished, we'd gain entrance to one of the Town's most beautiful parks. Member Bruschi said there are ADA compliance issues here. Member Paolillo asked if the building was marketable if we eventually owned it? Younger replied that the land is worth more than the building. Member Doblin stated that she doesn't support selling that land. BOS member Solomon said this issue will need to be discussed further.

Budget Numbers

Chair Jones turned the conversation over to Member White, who passed out two handouts that Town Accountant Hagg had helped put together. Member White pointed out some highlights:

- " The 2.5% revenue from property taxes will net \$3M.
- " \$650K is the projected new growth.
- " Debt exclusion, the senior center, and motor vehicle excise tax all will increase very little.
- " State aid is dropping because we are anticipating a drop in Chenery Middle School SBAB reimbursement, transfers dropped.
- " There is \$5M in free cash but only \$800K of this has been targeted for the budget.
- " License and permits fees have dropped because MacLean is done.
- " Cemetery projected revenue has gone up about 10%.
- " Chapter 70 aid is expected to increase 5% - Member Widmer concurs.
- " The lottery is flat.

Town Administrator Younger noted that while there will be a slight increase to Chapter 70, everything else is level. Member White replied that there is \$5M in free cash. Regarding expenses, Member White continued:

- " salaries are unknown since no union contracts have been negotiated
- " health care has a 10% increase built in
- " retirement has a built-in increase figure of over \$500K
- " Minuteman Regional School assessments will decrease by \$88K

We don't know yet what the town is requesting for funding, Member White continued - Town Administrator Younger is putting it together. Member Paolillo noted that it seems as if we have been conservative on expenses. Member Solomon suggested that it was premature to talk about a budget shortfall. Let's start with no preconceived notions, he continued, and look at what's needed and weigh what is needed - rationally - from a Town and school perspective. Member Curtis said that \$1.342 million is an important number: it represents what we have to spend, all that we have to spend based on known available revenue.

Handouts Related to This Topic:

- " Proposed No-Override Budget for FY07 (and breakout into line items)
- " Outstanding balances at the end of each year when \$1M is amortized...

Executive Session for Collective Bargaining

At 9:17, Chair Jones motioned to go into Executive Session, at which time a roll call vote was taken to discuss collective bargaining.

Motion to come out of Executive Session and adjourn the meeting by Member Heigham at 9:41.

Submitted by

Lisa Gibalerio
Recording Secretary